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Message Text

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46
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00

INRE-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-02

PRS-01 PA-01 ABF-01 /089 W
---------- 050638
O R 131635Z APR 76
FM AMEMBASSY ROME
TO SECSTATE WASHDC IMMEDIATE 6963
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION EC BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO

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E.O. 11652: N/A
TAGS: EFIN, IT
SUBJ: TURMOIL IN EXCHANGE AND FINANCIAL MARKETS

PASS TREASURY AND FRB

1. SUMMARY. ITALIAN FINANCIAL MARKETS IN LAST FEW DAYS,
PARTICULARLY ON APRIL 12, WERE IN TURMOIL DUE TO POLITICAL
UNCERTAINTY, ESPECIALLY PROBABILITY OF EARLY NATIONA
ELECTIONS. THERE WAS ATMOSPHERE BORDERING ON PANIC IN EXCHANGE
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MARKET AND IN STOCK MARKET. ON APRIL 12 LIRA REACHED ALL-TIME

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LOW AGAINST DOLLAR, STOCK MARKET DROPPED BY NEARLY 4 PERCENT TO ANOTHER NEW LOW, AND BOND MARKET, TOO, SUFFERED SMALL DECLINE. EXCHANGE RATE WAS LITTLE CHANGED ON APRIL 13, AND STOCK MARKET STABILIZED, WHILE BOND MARKET CONTINUED TO DECLINE. END SUMMARY.

2. FOREIGN EXCHANGE MARKET. LIRA DROPPED SHARPLY ON APRIL 12 TO NEW LOW AGAINST DOLLAR OF 898.25 LIRE PER DOLLAR. LIRA/DOLLAR RATE STABILIZED (WITH HELP OF HEAVY BOI INTERVENTION) ON APRIL 13 AT 897.625. AS OF APRIL 13, LIRA HAS LOST 31 PERCENT AGAINST DOLLAR SINCE WITHDRAWAL OF BOI FROM EXCHANGE MARKET ON JANUARY 20. WEIGHTED AVERAGE DEPRECIATION OF LIRA HAS DECLINED FROM 21.01 PERCENT SINCE SECOND DEVALUATION OF DOLLAR IN FEBRUARY 1973 TO 38.53 PERCENT ON APRIL 13.

3. PRELIMINARY BALANCE OF PAYMENTS FOR FIRST QUARTER IS SHOWN BELOW. FIGURES ARE VERY PROVISIONAL, BASED ON LIMITED MONETARY MOVEMENTS DATA THROUGH MID-MARCH AND ROUGH ESTIMATE OF DEFICIT FOR SECOND HALF OF MARCH. FIGURES ARE DIFFICULT TO INTERPRET SINCE THERE IS LITTLE BREAKDOWN AVAILABLE. HOWEVER, TRADE DEFICIT (ADJUSTED CUSTOMS BASIS) IS FAIRLY HIGH, AND SERVICES PLUS CAPITAL ACCOUNTS WERE IN MODEST DEFICIT.

BALANCE OF PAYMENTS, 1976
(ADJ. PAYMENTS BASIS)

	JAN	FEB	MAR	1ST QTR
EXPORTS 1)	2516	2452	N.A.	N.A.
IMPORTS 1)	2747	2828	N.A.	N.A.
TRADE BAL.	-231	-376	N.A.	N.A.
OTHER	-32	-44	N.A.	N.A.
DEFICIT	-263	-420	-681	-1364
FINANCIAL (DECREASE)	263	420	681	1364
BOI/UIC	473	36	794	1303
BANKS	-210	384	-113	61

E - PARTICAL ESTIMATE
1) CUSTOMS DATA WITH IMPORTS ADJUSTED FOR FOB BASIS.

4. STOCK MARKET. ITALIAN STOCK MARKET (MEDIOBANCA
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INDEX 1961 317-)- 100) TOOK NOSEDIVE ON APRIL 12. DECLINE WAS NEARLY 4 PERCENT, WITH INDEX READING LOWEST LEVEL SINCE IT WAS FIRST COMPILED IN 1961. REPORTEDLY, OTHER STOCK MARKET INDICES SHOWED LOWEST LEVEL SINCE 1956. (MARKET RECOVERED SLIGHTLY ON APRIL 13.) ON APRIL 12, TRADING IN SIX STOCKS WAS SUSPENDED ACCORDING TO STOCK EXCHANGE RULES DUE TO DECLINE OF MORE THAN 20 PERCENT IN THEIR VALUE.

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5. BOND MARKET. BOND MARKET HAS ALSO FELT EFFECTS OF POLITICAL AND FINANCIAL CRISIS, WITH IL GLOBO INDEX (END 1959 EQUALS 100) DECLINING BY ABOUT 1/2 PERCENT ON APRIL 12 AND BY 6.5 PERCENT SINCE JANUARY 20. INDEX DROPPED BY ADDITIONAL 0.3 PERCENT ON APRIL 13.

6. COMMENT. SHARP DROP OF LIRA IN LAST FEW DAYS TO LEVEL OF NEARLY 900 LIRE PER DOLLAR IS CLEARLY DUE TO UNCERTAIN POLITICAL SITUATION. ITALIAN PRESS AND BUSINESS COMMUNITY ALL BELIEVE THAT LIRA IS UNDERVALUED AT THIS RATE. HOWEVER, IN SHORT RUN, POLITICAL AND PSYCOLOGICAL FACTORS ARE OVER-RIDING UNDERLYING ECONOMIC CONDITIONS WHICH DO NOT SEEM TO JUSTIFY LIRA DEPRECIATION OF THIS MAGNITITUDE. DROP IN STOCK MARKET IS MORE IMPORTANT PSYCHOLOGICALLY THAN IN REAL ECONOMIC TERMS, GIVEN RELATIVE UNDERDEVELOPMENT OF MARKET, LACK OF WIDESPREAD SHARE OWNERSHIP AND HISTORIC VOLATILITY. NONETHELESS, DROP IN MARKET WILL NOT HELP INVESTMENT EX-PECTATIONS. DECLINE IN BOND MARKET MAY BE OF MORE IMPORTANCE IN LONGER RUN. UNLIKE STOCK MARKET, BOND MARKET IS REL-ATIVELY WELL DEVELOPED WITH FAIRLY WIDE OWNERSHIP, EVEN BY SMALL SAVERS. WHILE TRADITIONALLY BANKD OF ITALY HAS INTERVENED IN MARKET TO PROTECT CAPITAL VALUED, IT HAS HAD TO CONSIDERABLY REDUCE THIS SUPPORT IN RECENT MONTHS. TO THE EXTENT THAT EROSION OF PRIVATE SAVINGS IN BOND MARKET CONTINUES, THIS COULD CAUSE INDIVIDUALS TO CUT BACK ON THEIR EXPENDITURE PLANS. ON OTHER HAND, CORRESPONDING INCREASE IN YIELDS OF MEDIUM AND LONGER-TERM SECURITIES COULD ENCOURAGE NEW SAVINGS NEEDED TO FINANCE EVENTUAL INVESTMENT RECOVERY, AND CORRESPONDING DROP IN PRIVATE CONSUMPTION WOULD HELP TO PERMIT SHIFT OF REAL RESOURCES FROM PRIVATE CONSUMPTION TO EXPORTS.VOLPE

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